FETAKGOMO LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2013

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Service Delivery
Members of the Council	Councillors and Traditional Leaders Sefala RE (Mayor) Mamphekgo KK(Speaker) Makola MM (Chief Whip) Lentsoane SA (EXCO Member of Development Planning) Maisela PR(EXCO Member of Technical Services) Phaladi RC (EXCO Member of Budget & Treasury) Seroka KA (EXCO Member of Corporate & Community Services) Diphofa KD (Chairperson of Technical Services Portfolio Committee) Kupa TM(Chairperson of Budget & Treasury Services Portfolio Committee) Phala MD(Chairperson of Development Planning Portfolio Committee) Mashabela MN(Chairperson of Community Services Portfolio Committee) Mathipa MH(Chairperson of Remuneration Committee) Marote TE(Chairperson of Chairperson) Mabotha MC(Chairperson of Rules and Ethics Committee) Moifo HK Mawela VT Manala ER Mosoana MD Maesela MG Maboa S Kgoshi Phahlamohlaka K.P Kgoshi Nchabeleng M.K Kgoshigadi Seroka T.M Kgoshigadi Maisela RM Kgoshigadi Nchabeleng M
Grading of local authority	2
Acting Municipal Manager	Matumane N.D
Chief Financial Officer	Makgata MJ
Registered office	Stand no 1 Mashung Ga-Nkoana Apel 0739
Business address	Stand no 1 Mashung Ga-Nkoana Apel 0739
Postal address	PO BOX 818 Ga-Nkoana Apel 0739
Auditors	Auditor General
Attorneys	Rachoene and Associates Sydwel Rachoene

General Information

Name and Contact Delails of Auditor:	Thabo Mogano ThaboMOG@agsa.co.za 015 299 4435
Name and Contact Details of Provincial Treasury:	Ntuli PS NtuliPS@treasury.limpopo.gov.za 015 291 8400
Name and Contact Details of National Treasury:	Sifiso Mabaso Sifiso.Mabaso@treasury.gov.za 012 315 5792

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Approval of "Annual Financial Statements"

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 45 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors or management, loans made to Councilors or management, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs' determination in accordance with this Act and remuneration framework for section 56/57 approved Council by the Fetakgomo Municipal Council."

Acting Municipal Manager
Matumane N.D

30 August 2013

Statement of Financial Position as at 30 June 2013

	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	11	109 618	146 179
Trade and other receivables from exchange transactions	12	206 103	134 328
Receivables from non-exchange transactions	13	997 194	992 579
VAT receivable	14	3 113 487	1 818 197
Receivables	15	640 406	2 083 911
Cash and cash equivalents	16	16 138 616	14 131 701
		21 205 424	**19 306 895**
Non-Current Assets			
Investment property	7	6 579 091	6 579 091
Property, plant and equipment	8	86 164 592	73 948 755
Heritage assets	9	105 000	105 000
		92 848 683	**80 632 846**
Total Assets		**114 054 107**	**99 939 741**
Liabilities			
Current Liabilities			
Finance lease obligation	17	44 388	94 930
Trade and other payables from exchange transactions	20	8 262 076	6 856 656
Unspent conditional grants and receipts	18	7 386 565	4 747 940
Provisions	19	51 379	-
Bank overdraft	16	156 037	-
		15 900 445	**11 699 526**
Non-Current Liabilities			
Finance lease obligation	17	10 635	34 808
Long term service obligation	10	412 895	292 168
		423 530	**326 976**
Total Liabilities		**16 323 975**	**12 026 502**
Net Assets		**97 730 132**	**87 913 239**
Net Assets			
Accumulated surplus	2	97 730 132	87 913 239

Statement of Financial Performance

	Note(s)	2013	2012
Revenue			
Service charges	23	2 340 535	2 141 128
Rental of facilities and equipment	22	213 456	153 006
Income from agency services		254 318	223 971
Licences and permits		1 721 886	1 858 046
Other income	26	526 780	959 992
Interest received - investment		677 459	1 148 530
Property rates	22	2 249 209	878 671
Property rates - penalties imposed		113 423	33 457
Government grants & subsidies	24	66 075 436	55 418 436
Public contributions and donations	25	-	224 226
Fines		688 650	997 026
Total revenue		**74 861 152**	**64 036 489**
Expenditure			
Employee related cost	28	(27 420 598)	(23 203 093)
Remuneration of councillors	29	(7 011 301)	(6 096 938)
Depreciation and amortisation	33	(4 079 585)	(3 323 517)
Impairment loss	34	(40 527)	-
Finance costs	35	(12 115)	(22 600)
Debt impairment	30	(6 447 353)	(1 000 363)
Repairs and maintenance		(869 153)	(499 891)
Grants and subsidies paid	37	(1 759 432)	(1 853 426)
General expenses	27	(17 404 196)	(15 798 620)
Total expenditure		**(65 044 260)**	**(51 798 448)**
Operating surplus		**9 816 892**	**12 238 041**
Fair value adjustments	32	-	15 586
Surplus for the year		**9 816 892**	**12 253 627**
Attributable to:			
To municipality		9 816 892	12 253 627

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Opening balance as previously reported	75 556 814	75 556 814
Adjustments		
Correction of prior year error	102 798	102 798
Restated Balance at 01 July , 2011	**75 659 612**	**75 659 612**
Surplus for the year	12 253 627	12 253 627
Total changes	12 253 627	12 253 627
Opening balance as previously reported	84 660 930	84 660 930
Adjustments		
Correction of prior year errors	3 252 310	3 252 310
Restated Balance at 0 1 July , 2012	**87 913 240**	**87 913 240**
Surplus for the year	9 816 892	9 816 892
Total changes	9 816 892	9 816 892
Balance at 30 June 2013	**97 730 132**	**97 730 132**

Prior year adjustment due to correction of movable assets, WIP and transfer of PPE into investment property.For details refer to note 41.

Cash Flow Statement

	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		2 439 826	475 123
Grants		68 714 059	59 164 025
Interest income		677 459	1 148 530
Other receipts		267 294	2 140 675
		72 098 638	62 928 353
Payments			
Employee and councillors related cost		(33 933 613)	(29 295 777)
Suppliers		(19 891 367)	(16 777 388)
Finance costs		(12 115)	(22 600)
		(53 837 095)	(46 095 765)
Net cash flows from operating activities	38	**18 261 543**	**16 832 588**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(16 335 950)	(11 381 920)
Cash flows from financing activities			
Finance lease payments		(74 715)	(58 091)
Net increase/(decrease) in cash and cash equivalents		**1 850 878**	**5 392 577**
Cash and cash equivalents at the beginning of the year		14 131 701	8 739 124
Cash and cash equivalents at the end of the year	16	**15 982 579**	**14 131 701**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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1.1 Significant judgements and sources of estimation uncertainty

These annual financial statements have been prepared on a going concern basis.

In preparing the annual financial statements to conform with the standards of GRAP, management is required to make estimates, judgements and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future may differ from these estimates.

All significant estimates, judgements and underlying assumptions are reviewed on a constant basis. All necessary revisions of significant estimates are recognised in the period during such revisions as well as in any future affected periods.

Allowance for slow moving, damaged and obsolete stock

In determining the allowance for stock to write stock down to the lower of cost or net realisable value,management have made estimates of the selling price and direct cost to sell on certain inventory.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Long service awards

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service awards obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related long service liability.

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Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for impairment

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.3 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.If expenditure only restore the original best estimate of the expected useful life of the asset,then it is regarded as repairs and maintenance and is expensed.

Depreciation
Depreciation is calculated based on the assets' historical cost less residual value, using the straight line method over the useful life of the asset.The useful lives of the items of property,plant and equipment have been assessed as follows.

Item	**Average useful life**
Land	Indefinite
Buildings	
• Caravan	5-10
• Shelter	10-15
• Civic theatres	25-30
• Community centers and public entertain building	25-30
• Driver and vehicle testing centers	25-30
• Libraries	25-30
• Office building(including air conditioning systems)	25-30
• Public parking(covered and open)	25-30
• Stadiums	10-15
Electricity	
• Transformers	25-50
• Electrical panels	3-5
• Lines-underground	25-45
• Lines-Ovehead	20-30
• Telmetry	7-15
• Electrical panels	3-5
Roads(Roads,Pavements,Bridges & Storm Water)	
• Vehicle Bridge -Concrete	
• Municipal roads-Asphalt surface	10-20
• Asphalt layer	30-50
• Concrete surface	10-30
• Gravel surface	3-10
• Electronic hardware	10-15
• Other equipments	10-20
• Pedestrian footpaths	15-30
Furniture and Office Equipment	
• Advertising boards	3-5
• Air conditioners(individual & portable)	3-5
• Cutlery and crokery	5-10
• Domestic and hostel furniture	10-15
• Linen and soft furnishings	5-10
• Office Furniture	5-7
• Office equipment(including fax machine)	5-7
• Paintings,sculptures,ornaments(home and office)	5-10
Transport Assets	
• Motor vehicles	4-7
• Trailers and accessories	5-10
• Trucks	5-7
• Motor Cycles	4-7
Computer Equipment	
• Computer hardware including operating systems	3-5
• Networks	5-10

Accounting Policies

1.3 Property, plant and equipment (continued)

Other Machinery and Equipment

• Audio equipment	5-10
• Building air conditioning systems	5-10
• Domestic equipment(non kitchen appliances)	3-5
• Electric wire and power power distribution equipment(compressors,generators and allied equipment)	5-10
• Rescue equipment	5-10
• Fire fighting equipment	3-5
• Gardening equipment	2-4
• Irrigation equipment	10-15
• Kitchen appliances	5-10
• Laundry equipment and industrial sewing machines	10-15
• Learning,training support and library material	5-10
• Music instruments	10-15
• Photographic Equipment	5-7
• Pumps,plumbing,purification and sanitation equipment	5-10
• Radio equipment	5-7
• Road construction and maintenance equipment	10-15
• Saddles and other tack	5-7
• Security equipment/system/materials-fixed	3-5
• Security equipment/system/materials-movable	3-5
• Ship and marine equipment	5-7
• Sport and recreational equipment	5-7
• Survey equipment	5-7
• Telecommunication equipment	3-5
• Tents,flags and accessories	5-10
• Woodworking machinery and equipment	5-10
• Workshop equipment and loose tools-fixed	5-10
• Workshop equipment and loose tools-movable	3-5

Accounting Policies

1.4 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

Accounting Policies

1.5 Financial instruments (continued)

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

Accounting Policies

1.5 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - Lessee

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.The difference between the amounts recognised as revenue and the contracted receipts are recognised as an operating lease asset or liability

Assets leased in terms of finance lease agreements are capitalized at amounts equal at the inception of the lease to the fair value of the leased property, or lower, at the present value of the minimum lease payments. Capitalised leased assets are depreciated in accordance with the accounting policy applicable to property, plant and equipment, refer to property, plant and equipment policy. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. Lease finance charges are amortised to the statement of financial performance over the duration of the leases so as to achieve a constant rate of interest on the remaining balance of the liability.
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Accounting Policies

1.7 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

1.8 Impairment of cash-generating assets (continued)

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

Accounting Policies

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

1.11 Employee benefits (continued)

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the annual financial statement in note number 38 .

Accounting Policies

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Accounting Policies

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Accounting Policies

1.17 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act 56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.23 Commitments

Items are classified as commitment where the municipality commits itself to future transactions that will normally results in the outflow of resources.Commitments are not recognised in the Statement of Financial Position as a liablilty, but are included in the disclosure notes in the following cases:
-approved and contracted commitments;
-where the expenditure has been approved and contract has been awarded at the reporting date; and
-where disclosure is required by specific standard of GRAP.

Notes to the Annual Financial Statements

	2013	2012

2. Accumulated surplus

3. Commitments

Authorised capital expenditure

Approved and constracted		
• Community assets	2 486 571	6 503 371
• Infrastructure	3 503 930	6 341 140
• Operational	4 135 666	-
	10 126 167	**12 844 511**

Approved and not yet constracted		
• Community Assets	-	2 441 680
• Infrastructure	714 015	1 150 000
• Operational	199 990	-
	914 005	**3 591 680**

The following are the projects forms part of the commitment ;
-Construction of Mphanaman Community Hall;
-Construction of High Mast Lights; -
-Designs of Street Lights and ;
-Security and rental of two radio equipments.
The above commitment will be finance from conditional grants and municipal owned revenue.

4. Irregular expenditure

Opening balance	2 388 840	-
Irregular expenditure - current year	3 887 985	2 388 840
	6 276 825	**2 388 840**

Analysis of expenditure awaiting condonation per age classification

Current year	3 887 985	-
Prior years	2 388 840	2 388 840
	6 276 825	**2 388 840**

Details of irregular expenditure incurred

1. Non compliance to SCM policy during the appointment of Mphanama community hall service provider	1 305 414
2.Appointment of service provider who performed unsatisfactorily in the past on Strykraal community hall and this is the cummulative spending on irregular already reported in the last financial years.	1 933 585
3.Non-compliance on recruitment and placement of operational employees	504 496
4. Alteration of salary framework approved by council on remuneration of certain section 57 managers	144 489
	3 887 984

5. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Council membership fee payable	400 000	101 382
Amount paid - current year	(400 000)	(101 382)
	-	**-**

Notes to the Annual Financial Statements

	2013	2012

5. Additional disclosure in terms of Municipal Finance Management Act (continued)

Medical Aid

	2013	2012
Current payroll deduction	1 403 844	1 194 583
Amount paid - current year	(1 403 844)	(1 194 583)
	-	-

Audit fees

	2013	2012
Opening balance	-	18 000
Current year audit fee	1 312 270	1 641 811
Amount paid - current year	(1 312 270)	(1 659 811)
	-	-

PAYE , SDL and UIF

	2013	2012
Current payroll deduction	4 023 419	4 215 593
Amount paid - current year	(4 023 419)	(4 215 593)
	-	-

Pension fund

	2013	2012
Current payroll deduction	3 445 297	4 018 382
Amount paid - current year	(3 445 297)	(4 018 382)
	-	-

VAT

	2013	2012
VAT receivable	3 113 487	1 818 197

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
Phala TN	91	-	91
Mosoane DM	-	736	736
Mabotha R	-	121	121
Moifo HK	-	151	151
Moswane WM	-	413	413
	91	**1 421**	**1 512**

Notes to the Annual Financial Statements

	2013	2012

5. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Phala TN	-	360	360
Phala MD	-	360	360
Mashabela MN	-	360	360
Moifo HK	-	360	360
Mosoana DM	-	360	360
Moswane WM	-	360	360
Maesela MG	-	360	360
	-	**2 520**	**2 520**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by Municipal Manager and noted by Council on quartely basis.

Description		
Deviations on goods and services less than R30 000	211 149	244 431
Deviations on goods and services between R30 000 and R200 000	66 454	329 309
	277 603	**573 740**

Notes to the Annual Financial Statements

6. New standards and interpretations

6.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	Recognition,measurement and derecognition
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	Recognition,measurement and derecognition
• GRAP 103: Heritage Assets	01 April 2012	Recognition,measurement and derecognition
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	Recognition,measurement and derecognition
• GRAP 26: Impairment of cash-generating assets	01 April 2012	Recognition,measurement and derecognition
• GRAP 104: Financial Instruments	01 April 2012	Recognition,measurement and derecognition

6.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25: Employee benefits	01 April 2013	None
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	None
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	None
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	None
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	None
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	None
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	None
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	None
• GRAP 12 (as revised 2012): Inventories	01 April 2013	None
• GRAP 13 (as revised 2012): Leases	01 April 2013	None
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	None
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	None
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	None
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	None
• IGRAP16: Intangible assets website costs	01 April 2013	None
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	None

Notes to the Annual Financial Statements

	2013	2012

7. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6 579 091	-	6 579 091	6 579 091	-	6 579 091

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	6 579 091	6 579 091

Reconciliation of investment property - 2012

	Opening balance	Addition	Fair value adjustments	Total
Investment property	304 414	6 259 091	15 586	6 579 091

Details of valuation

Municipality made use of external and independent professional valuer to value two properties within its juristiction.The valuation was based on open market value for existing use.The following are two properties that were currently valued by the professional valuer
1.Municipality has a guest house which is avalibale for overnignt rentals
2.Municipality has Thusong services centre which is being leased out to various agencies in Atok.
3.Municipality has 64 hectors of land or investment property situated in Hoeraroep farmks 515 in Apel

These assumptions are based on current market conditions.

8. Property, plant and equipment

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Book Value	Cost	Accumulated depreciation and accumulated impairment	Book Value
Buildings	77 316 076	(12 862 689)	64 453 387	65 465 412	(10 439 072)	55 026 340
Infrastructure	8 036 977	(312 480)	7 724 497	5 464 840	(155 673)	5 309 167
Other property, plant and equipment	11 827 201	(4 269 771)	7 557 430	9 359 027	(2 751 356)	6 607 671
Work in progress	6 429 278	-	6 429 278	7 005 577	-	7 005 577
Total	**103 609 532**	**(17 444 940)**	**86 164 592**	**87 294 856**	**(13 346 101)**	**73 948 755**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfer	Depreciation	Impairment loss	Total
Buildings	55 026 340	11 850 665	-	(2 423 618)	-	64 453 387
Infrastructure	5 309 167	2 572 137	-	(156 807)	-	7 724 497
Other property, plant and equipment	6 607 671	2 489 447	-	(1 499 161)	(40 527)	7 557 430
Work in progress	7 005 577	-	(576 299)	-	-	6 429 278
	73 948 755	**16 912 249**	**(576 299)**	**(4 079 586)**	**(40 527)**	**86 164 592**

Reconciliation of property, plant and equipment - 2012

Notes to the Annual Financial Statements

	2013	2012

8. Property, plant and equipment (continued)

	Opening balance	Additions	Transfer	Depreciation	Total
Buildings	51 095 353	1 712 582	4 319 402	(2 100 997)	55 026 340
Infrastructure	3 005 244	2 400 547	-	(96 624)	5 309 167
Other property, plant and equipment	6 213 227	1 520 343	-	(1 125 899)	6 607 671
Work in progress	1 257 129	5 748 448	-	-	7 005 577
	61 570 953	**11 381 920**	**4 319 402**	**(3 323 520)**	**73 948 755**

9. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Stamp collections, military insignia, medals, coin	105 000	-	105 000	105 000	-	105 000

Reconciliation of heritage assets 2013

	Opening balance	Total
Stamp collections, military insignia, medals, coin	105 000	105 000

Reconciliation of heritage assets 2012

	Opening balance	Total
Stamp collections, military insignia, medals, coin	105 000	105 000

10. Long term service awards

Long-term service benefits

The accounting standard require that the liabilities are valued using the projected credit unit method. This method was used to value liabilities at year end. Consistent with the provision of IAS 19 ,the liability has been calculated as the accrued service liability. The accrued service liability is calculated by valuing all future leave and payments expected to be made in respect of benefits accrued up the valuation date. Allowance has been made in these calculations for salary increases and investment returns up to the date that benefit is received.

Movement in the net liability recognised on the statment of financial position

	2013	2012
Opening balance	292 168	223 674
Payment	-	(12 281)
Net expense recognised in the statement of financial performance	120 729	80 775
Closing balance	**412 897**	**292 168**

Amounts recognised in the statement of financial performance

	2013	2012
Current service cost	96 582	75 622
Past service cost	-	21 059
Interest cost	27 297	-
Actuarial (gains) losses	-	(15 906)
Benefits payment	(3 150)	-
Total included in employee related costs	**120 729**	**80 775**

Calculation of actuarial gains and losses

	2013	2012
Actuarial (gains) losses for the current year	-	15 906
Actuarial (gains) loss recognised	-	(15 906)
Total	**-**	**-**

Notes to the Annual Financial Statements

	2013	2012

10. Long term service awards (continued)

The amounts recognised in the statement of financial position;

	2013	2012
Present value of long term services obligation at 01 July 2012	292 168	223 674
Interest cost	27 297	21 059
Current service cost	96 582	75 621
Benefits paid	-	(12 281)
Actuarial(gains)losses	-	(15 905)
Benefit payment	(3 150)	-
Present value of long term services obligation at 30 June 2013	**412 897**	**292 168**

Key assumptions used

Below are the assumptions used at the reporting date:

	2013	2012
Discount rates used	8,10 %	8,10 %
General Inflation	5,40 %	5,40 %
Salary Inflation	6,40 %	6,40 %
Real rate(Gap)	1,60 %	1,60 %

The discount rate required by IAS 19 should be set with reference to a highly quality corporate bond. In countries where there is no deep market in such bonds, the market yield on government bonds should be used. The R186 government bond yield was used as at 30 June 2013.The general assumption is used to estimate the base rate for determining the rate at which the future salaries will increase.
The estimated market pricing of inflation by comparing the yields on the index linked government bonds and long term bonds, adjusting for an inflation risk premium of 0,5% per annum .The implied inflation assumption is therefore 5,4 % per annum for future inflation. Future salaries can be expected to increase in line with salary inflation. Salary inflation will exceed general inflation by 1, 0% per annum. The municipality does not have any specific assets set aside to profound for this liability.

11. Inventories

	2013	2012
Consumable stores	76 230	28 670
Printing & stationery	33 388	117 509
	109 618	**146 179**

Inventory is stated at lower of cost, net realisable value or current replacement cost where applicable.

12. Trade and other receivables from exchange transactions

	2013	2012
Debtors-council facilities	110 053	-
Prepaid expenses	96 050	134 328
	206 103	**134 328**

13. Receivables from non-exchange transactions

	2013	2012
Fines	997 194	992 579

14. VAT receivable

	2013	2012
VAT	3 113 487	1 818 197

VAT disclosed separately due to it being material and VAT receivable is stated at VAT output less VAT input for the period.

VAT is accounted on a cash basis.

Notes to the Annual Financial Statements

	2013	2012

15. Receivables

	2013	2012
Gross balances		
Rates	2 892 257	768 677
Refuse	4 969 641	2 315 597
	7 861 898	**3 084 274**
Less: Allowance for impairment		
Rates	(2 747 644)	-
Refuse	(4 473 848)	(1 000 363)
	(7 221 492)	**(1 000 363)**
Net balance		
Rates	144 613	768 677
Refuse	495 793	1 315 234
	640 406	**2 083 911**
Included in above is receivables from exchange transactions		
Refuse	4 969 641	2 315 597
Less allowance for impairment	(4 473 848)	(1 000 363)
	495 793	**1 315 234**
Included in above is receivables from non-exchange transactions		
Rates	2 892 257	768 677
Less allowance for impairment	(2 747 644)	-
	144 613	**768 677**
Net balance	**640 406**	**2 083 911**
Business and government-rates		
0-60 days	625 574	262 181
61 - 90 days	319 675	253 505
91 - 120 days	158 420	252 991
91 - 120 days	1 788 588	-
Provision for bad-debts	(2 747 644)	-
	144 613	**768 677**
Households and business -refuse removal		
0 -60 days	501 665	200 349
61 - 90 days	532 041	197 756
91 - 120 days	262 282	196 550
121+ days	3 673 653	1 720 942
Less allowance for impairment	(4 473 848)	(1 000 363)
	495 793	**1 315 234**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1 000 363)	-
Contributions to allowance	(6 221 129)	(1 000 363)
	(7 221 492)	**(1 000 363)**

16. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

	2013	2012

16. Cash and cash equivalents (continued)

	2013	2012
Cash on hand	68	26
Bank balances	-	3 205 018
Short-term investments	16 138 548	10 926 657
Bank overdraft	(156 037)	-
	15 982 579	**14 131 701**

	2013	2012
Current assets	16 138 616	14 131 701
Current liabilities	(156 037)	-
	15 982 579	**14 131 701**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
Stnadard Bank current account : Apel Account number: 30164532	660 169	1 000	1 000	-	1 000	1 000
Standard Bank call account : Apel Account number: 418909202	85 421	3 235 548	924 784	(156 037)	3 201 973	886 265
Total	**745 590**	**3 236 548**	**925 784**	**(156 037)**	**3 202 973**	**887 265**

Included in the short term investments are funds invested in the following retail banks;
1.ABSA;
2.Nedbank and;
3.FNB

17. Finance lease obligation

	2013	2012
Minimum lease payments due		
- within one year	46 058	104 424
- in second to fifth year inclusive	11 250	34 808
	57 308	139 232
less: future finance charges	(2 285)	(9 494)
Present value of minimum lease payments	**55 023**	**129 738**

	2013	2012
Present value of minimum lease payments due		
- within one year	44 388	94 930
- in second to fifth year inclusive	10 635	34 808
	55 023	**129 738**

	2013	2012
Non-current liabilities	10 635	34 808
Current liabilities	44 388	94 930
	55 023	**129 738**

1.The Palesa liability is secured by office equipment under a deemed finance lease with a carrying value of R 26 715,96. The effective interest rate is 10.5% and is repayable in 36 equal instalments of R 937.5 of which the first was paid in August 2012. The last instalment is payable during June 2015.
2.The Gestetner liability is secured by office equipment under a deemed finance lease with a carrying value of R32 021,39 . The effective interest rate is 11% and is repayable in 36 equal instalments of R 8 701,36 of which the first was paid in November 2010. The last instalment is payable during October 2013.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2013	2012
Municipal infrastructure grant(MIG)	7 386 565	4 747 940

Notes to the Annual Financial Statements

	2013	2012

18. Unspent conditional grants and receipts (continued)

Movement during the year

	2013	2012
Balance at the beginning of the year	4 747 940	961 510
Additions during the year	18 690 000	15 407 000
Income recognition during the year	(16 051 375)	(11 620 570)
	7 386 565	**4 747 940**

19. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision	-	51 379	51 379

20. Trade and other payables from exchange transactions

	2013	2012
Trade payables	1 498 346	966 697
Income received in advance	3 065	3 065
Retentions	4 132 519	3 625 005
Other payables	8 773	4 567
Accrued staff leave	1 940 626	1 925 116
Accrued bonus(13 cheque)	342 140	332 206
Accruals	336 607	-
	8 262 076	**6 856 656**

21. Revenue

	2013	2012
Service charges	2 340 535	2 141 128
Rental of facilities and equipment	213 456	153 006
Income from agency services	254 318	223 971
Licences and permits	1 721 886	1 858 046
Other revenue	526 780	959 992
Interest received - investment	677 459	1 148 530
Property rates	2 249 209	878 671
Property rates - penalties imposed	113 423	33 457
Government grants & subsidies	66 075 436	55 418 436
Public contributions and donations	-	224 226
Fines	688 650	997 026
	74 861 152	**64 036 489**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2013	2012
Service charges	2 340 535	2 141 128
Rental of facilities and equipment	213 456	153 006
Income from agency services	254 318	223 971
Licences and permits	1 721 886	1 858 046
Other income	526 780	959 992
Interest received - investment	677 459	1 148 530
	5 734 434	**6 484 673**

Notes to the Annual Financial Statements

	2013	2012

21. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	2 249 209	878 671
Property rates - penalties imposed	113 423	33 457
Transfer revenue		
Government and subsidies-capital	66 075 436	55 418 436
Public contributions and donations	-	224 226
Fines	688 650	997 026
	69 126 718	**57 551 816**

22. Property rates

Rates

Residential	4 313 239	878 671
Less: Income forgone	(2 064 030)	-
	2 249 209	878 671
Interest on property rates levied	113 423	33 457
	2 362 632	**912 128**

Valuations

Agricultural	53 020 000	53 020 000
Educational	115 400 000	115 400 000
Business	162 370 000	162 370 000
Industrial	2 560 000	2 560 000
Mining	13 720 000	13 720 000
Residential	66 640 000	66 640 000
Municipal	10 600 000	10 600 000
State owned	108 950 000	108 950 000
Public service organisation	20 030 000	20 030 000
PBO and place of worship	3 360 000	3 360 000
	556 650 000	**556 650 000**

Valuations on land and buildings are performed every four years. Fetakgomo Municipality implemented general valuation for the first on 1 July 2011.Valuation roll was prepared and performed by the qualified property valuer.
All the rebates and exemptions were granted as per the approved Rates Policy which was in line with the Municipal Property Rates Act..

23. Service charges

Refuse removal	2 340 535	2 141 128

Notes to the Annual Financial Statements

	2013	2012

24. Government grants and subsidies-operating

	2013	2012
Operating grants		
Equitable share	46 115 001	40 562 000
Finance management grant	1 500 000	1 500 000
Municipal systems improvement grant	800 000	790 000
Sekhukhune ward committee grant	500 000	40 841
LG seta grant	97 060	176 025
Municipal infrastructure grant operating	669 283	610 154
EPWP incentive grant	1 012 000	729 000
	50 693 344	44 408 020
Capital grants		
Municipal infrastructure grant	15 382 092	11 010 416
	15 382 092	11 010 416
	66 075 436	**55 418 436**

Equitable share

This grant is an unconditional grant and is utilised for operating costs as well as subsidising the provision of basic services to indigent community members .

Municipal infrastructure grant

	2013	2012
Balance unspent at beginning of year	4 747 940	961 510
Current-year receipts	18 690 000	15 407 000
Conditions met - transferred to revenue	(16 051 375)	(11 620 570)
	7 386 565	**4 747 940**

This grant was used to construct projects approved projects by Cooperative Governance and Traditional Affairs. Other than the unspent amount, the conditions of the grant were met and no funds have been withheld The unspent grant is cash backed.

Municipal systems improvement grant

	2013	2012
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 000)
	-	-

This grant was used to build in-house capacity to perform their functions and stabilize institutional and governance systems.

LG Seta grant

	2013	2012
Current-year receipts	97 059	176 025
Conditions met - transferred to revenue	(97 059)	(176 025)
	-	-

The grant was utilised for training and development of municipal staff.

Sekhukhune ward committee grant

	2013	2012
Balance unspent at beginning of year	-	40 841
Current-year receipts	500 000	-
Conditions met - transferred to revenue	(500 000)	(40 841)
	-	-

This grant was used to pay stipends for the ward committee members.

Municipal finance management grant

	2013	2012
Current-year receipts	1 500 000	1 500 000

Notes to the Annual Financial Statements

	2013	2012
24. Government grants and subsidies-operating (continued)		
Conditions met - transferred to revenue	(1 500 000)	(1 500 000)
	-	-

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003.

EPWP incentive grant

	2013	2012
Current-year receipts	1 012 000	729 000
Conditions met - transferred to revenue	(1 012 000)	(729 000)
	-	-

The grant was used to pay wages for EPWP employees.

25. Public contributions and donations

	2013	2012
Public contributions and donations	-	224 226

26. Other income

	2013	2012
Construction penalties	259 486	517 214
Retention revenue	-	231 186
Land use charges	11 275	852
Tender documents	44 403	63 514
Proof of residence	39 188	46 276
Sundry income	155 428	86 614
Staff parking	17 000	14 336
	526 780	**959 992**

Notes to the Annual Financial Statements

	2013	2012

27. General expenses

	2013	2012
Advertising	201 149	220 560
Auditors remuneration	1 312 270	1 659 812
Bank charges	112 822	81 056
Cleaning service	789 335	456 564
Computer expenses	668 420	619 728
Legal fees and consulting fees	462 403	816 634
Inventory write offs	-	11 550
Donations	349 612	283 471
Entertainment	41 392	42 474
Ward committe stipends	1 491 736	1 911 565
Insurance	271 225	171 641
IT expenses	421 892	330 511
Rental of office equipment	190 016	80 606
Magazines, books and periodicals	6 338	18 500
Fuel and oil	748 703	673 422
Postage and courier	953	785
Printing and stationery	512 760	417 442
Publicity	174 209	113 594
Workmens compensation	262 824	145 549
Security (guarding of municipal property)	2 503 867	1 901 172
Subscriptions and membership fees	458 597	126 497
Telephone and fax	435 129	351 796
Training	379 280	339 004
Travel - local	1 264 504	1 351 986
Electricity	718 981	628 069
Bursary fund	166 537	4 621
Consulting fees	974 734	244 058
Council governance/functions	895 493	772 421
FMG expenditure	729 957	585 781
Other expenditure	859 058	1 437 751
	17 404 196	**15 798 620**

Notes to the Annual Financial Statements

	2013	2012

28. Employee related costs

Basic	11 023 015	8 593 349
Bonus	888 203	829 991
Medical aid	1 403 845	1 194 584
Unemployment insurance fund	201 434	168 636
Skills development levy	155 254	128 766
Standby allowance	149 041	-
Pay as you earn	2 357 534	2 009 795
Pension fund - defined contribution plan	3 059 469	2 766 332
Overtime payments	97 126	176 304
Long-service awards	120 727	68 493
Acting allowances	6 356	1 313
Transport allowance	2 808 672	2 655 739
Housing benefits and allowances	44 520	102 585
Group life insurance	164 116	142 521
Contribution to special leave	293 257	400 567
Cellphone allowance	241 935	226 748
SALGB	9 413	5 617
	23 023 917	**19 471 340**

Remuneration of Municipal Manager

Basic salary	406 362	417 942
Car allowance	96 940	103 999
Performance bonus	50 100	83 500
Contributions to UIF, medical,pension funds & other	511 539	447 419
Cellphone allowance	9 600	9 600
Annual Leave paid out(termination of emplyment contract)	-	96 346
	1 074 541	**1 158 806**

Performance bonus was paid in line with the requirement of performance management regulation, 2001 and approved PMS framework.The maximum percentage of performance bonus payable was 14% of total cost to employer.

Remuneration of Chief Financial Officer

Basic salary	392 680	273 602
Car allowance	135 270	135 877
Performance bonus	37 575	67 635
Contributions to UIF, medical and pension funds	412 283	378 141
Cellphone allowance	8 400	8 400
	986 208	**863 655**

Performance bonus was paid in line with the requirement of performance management regulation,2001 and approved PMS framework.The maximum percentage of performance bonus payable was 14% of total cost to employer.

Strategic Manager-Technical Services

Basic salary	174 945	-
Car allowance	97 627	-
Contributions to UIF, medical and pension funds	180 512	-
Cellphone Allowance	8 400	-
	461 484	**-**

Strategic Manager Technical Services joined the municipality in December 2012.

Strategic Manager-Corporate Services

Basic Salary	318 365	410 623
Car Allowance	49 227	58 799
Performance Bonuses	36 150	57 840

Notes to the Annual Financial Statements

	2013	2012

28. Employee related costs (continued)

Contributions to UIF, Medical and Pension Funds	470 602	294 112
Cellphone Allowance	8 400	8 400
	882 744	**829 774**

Performance bonus was paid in line with the requirement of performance management regulation,2001 and approved PMS framework.The maximum percentage of performance bonus payable was 14% of total cost to employer.

Strategic Manager-Development Planning

Basic salary	458 307	355 956
Car allowance	14 460	14 116
Performance bonus	86 760	101 200
Contributions to UIF, medical and pension funds	423 777	399 846
Cellphone allowance	8 400	8 400
	991 704	**879 518**

Performance bonus was paid in line with the requirement of performance management regulation,2001 and approved PMS framework.The maximum percentage of performance bonus payable was 14% of total cost to employer.

29. Remuneration of councillors

Mayor	633 601	577 703
Speaker	511 687	465 840
Chief whip	481 128	437 876
Executive committee	1 174 124	968 740
Councillors	4 210 761	3 646 779
	7 011 301	**6 096 938**

In-kind benefits

The Mayor, Speaker , Chiefwhip and two executive committee were full-time. Mayor,Speaker and Chiefwhip are provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle and driver for official duties.

30. Debt impairment

Contributions to allowance for impairment	6 447 353	1 000 363

Total contribution to allowance for impairment includes traffic fines,refuse removal and property rates.

31. Investment revenue

Interest revenue		
Call account	143 635	107 997
Investment income	533 824	1 040 533
	677 459	**1 148 530**

32. Fair value adjustments

Fair value adjustment on investment property	-	15 586

33. Depreciation

Property, plant and equipment	4 079 585	3 323 517

Notes to the Annual Financial Statements

	2013	2012

34. Impairment of assets

Impairment		
Property, plant and equipment	40 527	-

35. Finance costs

Finance lease	12 115	22 600

36. Auditors' remuneration

Fees	1 312 270	1 659 812

37. Grants and subsidies paid

Grant paid to Eskom: free basic electricity	1 290 569	1 147 455
Local economic development support programme	468 863	705 971
	1 759 432	**1 853 426**

38. Cash generated from operations

Surplus	9 816 892	12 253 627
Adjustments for:		
Depreciation	4 079 585	3 323 517
Fair value adjustments	-	(15 586)
Impairment deficit	40 527	-
Debt impairment	6 447 353	1 000 363
Movements in long term service liability	120 727	68 492
Movements in provisions	51 382	-
Other none cash items	-	107 349
Changes in working capital:		
Inventories	36 561	(46 436)
Trade and other receivables from exchange transactions	(71 775)	(1 024 152)
Other receivables from non-exchange transactions	(4 615)	-
Consumer debtors	(5 003 848)	(3 084 274)
Trade and other payables from exchange transactions	1 405 419	513 828
Value added tax receivable	(1 295 290)	(9 729)
Unspent conditional grants and receipts	2 638 625	3 745 589
	18 261 543	**16 832 588**

39. Contingent liabilities

Contingent liabilities

1.A dispute by E.Baleni Property Consultant has been raised against the municipality to the value of R3000 000 with regard to property valuation against the municipality. The case is currently in court.
2.Mokhale Lesley Makgopa is currently challenge municipality about the tax deductions and the estimated amount or claim is R25 000.
3.Maditsi Mpho lodged dispute on salary scale against the municipality and he is claiming R195 000.
4.Residents are claiming R 215 856.76 against the municipality for being evicted from the municipal owned land.
5.Mathibe Bennedict Mamogobo issued lawsuit against the municipality on design of municipal logo and the matter is currently handled by municipal legal counsel.The estimated claim is R1 100 000.
7.Mashilo MP made a claim against the municipality salary parity and the matter is currently arbiteration.Amount could not be determine at this stage.
Municipality is currently defending all these cases.

Contingent assets

Municipality is currently in dispute with Strategic Manager Technical Services and trying to claim the amount which was paid to the Morokolo M.P(Strategic Manager Technical Services) while she was on maternity leave and there is dispute on the interpretation.The total amount was R 131852,46.

Notes to the Annual Financial Statements

	2013	2012

40. Related parties

Relationships	
Municipal Manager	Lebepe ME-resigned after year end
Members of senior management	Makgata MJ(Chief Financial Officer)
	Phasha MI(Strategic Manager Corporate Services)
	Matumane N.D (Strategic Manager Development Planning)
	Morokolo MP(Strategic Manager Technical Services)
Members of Municipal Council	Sefala R.E (Mayor)
	Mamphekgo KK (Speaker)
	Makola MM (Chiefwhip)
	Phaladi RC (Executive Committee Member)
	Maisela PR (Executive Committee Member)
	Lentsoana SA (Executive Committee Member)
	Seroka KA (Executive Committee Member)
	Diphofa KD(Chairperson of Technical Committee)
	Kupa TM(Chairperson of Budget & Treasury Portfolio Committee)
	Phala MD (Chairperson of Development Planning Portfolio Committee)
	MathipaMH(Chairperson of Remuneration Committee)
	Mashabela MN(Chairperson of Community Services Portfolio Committee)
	Moswana WM(Chairperson of Municipal Public Account Committee)
	Lesufi JM(Chairperson of Corporate Services Portfolio Committee)
	Phala TN
	Phasha MJ
	Moifo HK
	Mawela VT
	Mabotha MC
	Manala ER
	Marote TE
	Mosoana MD
	Maboa S
	Kgoshi Phahlamohlaka K.P
	Kgoshi Nchabeleng M.K
	Kgoshigadi Seroka T.M
	Kgoshigadi Nchabelng M
	Semenya CC (Chairperson Audit Committee)
	Mangoakwana A (Audit Committee)
	Mokwele MW (Audit Committee)
	Mahonga M (Audit Committee)
	Molopo L (Audit Committee)

Apart from salaries and performance bonuses paid to the members of the senior management,management did not have any other related transaction identified.All the members of council were paid remuneration in line with the requirement of Public Office Bearers Act of 1998 and no loan was issued issued to either member of management or council.Other than related parties identified above, no other related parties existed as at the time of submission of annual financial statement. Salaries and remuneration of key management and councillors are disclosed in 27 and 28. Audit committee members and Magoshi were paid in terms of approved council guidelines.

41. Prior period errors

1.Correction of error due to some of movable assets carried out on fair value as opposed to actual cost .
2.Correction of two investment property which were previously classifed as property,plant and equipment instead of investment propert and the investment property is now carried at fair value.
3.Correction of error due to debtors raised incorrectly in the previous financial year.

Details of the appropriation are as follows:

Notes to the Annual Financial Statements

	2013	2012

41. Prior period errors (continued)

Decrease in property,plant and equipment	-	(9 501 679)
Increase in investment property	-	6 259 091
Decrease in current assets	-	(9 722)
Decrease in accumulated surplus	-	(3 252 310)

42. Comparative figures

Certain comparative figures have been reclassified to conform with the correct description.

43. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

1.Municipal Manager resigned subsequent to settlement agreement with effect from 25 July 2013.The total amount paid was R 336 376.86 .
2.SARS deducted R3 600 0000 amount from the municipal bank account after stating that the municpality declared more output than input in November and December 2012 respectively.The amount was deducted in July 2013 from municipal bank account.

46. Fruitless and wasteful expenditure

Eskom,COIDA & Telkom	8 214	6 133
Recreation parks	98 179	-
	106 393	**6 133**

1.Late payment of Eskom due to late collection of municipal post;
2.Late payment of Telkom due to late collection of municipal post.
3.Late payment due late collection of post and;
4.Repairs of municipal recreational park not yet handed to municipality and payment of legal cost on the same project during disputes between municipality and the contractor.
Council did not condone any fruitless and wasteful expenditure as at the reporting date.

47. In-kind donations and assistance

Municipality donated office space to the local youth at Atok Thusong Service Centre to run and manage Telecentre.The offfice space is donated at the market rate.

Notes to the Annual Financial Statements

Figures in Rand

48. Statement of comparative and actual information (appropriation statement)

2013

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	920 354	3 022 000	3 942 354	-		3 942 354	2 362 632		(1 579 722)	60 %	257 %
Service charges	2 304 000	-	2 304 000	-		2 304 000	2 340 535		36 535	102 %	102 %
Investment revenue	900 000	-	900 000	-		900 000	677 459		(222 541)	75 %	75 %
Transfers recognised - operational	50 321 748	500 000	50 821 748	-		50 821 748	50 693 344		(128 404)	100 %	101 %
Own revenue	6 721 220	67 500	6 788 720	-		6 788 720	3 405 092		(3 383 628)	50 %	51 %
Total revenue (excluding capital transfers and contributions)	**61 167 322**	**3 589 500**	**64 756 822**	**-**		**64 756 822**	**59 479 062**		**(5 277 760)**	**92 %**	**97 %**
Employee costs	(26 658 000)	(925 000)	(27 583 000)	-	-	(27 583 000)	(27 420 598)	-	162 402	99 %	103 %
Remuneration of councillors	(7 006 387)	150 000	(6 856 387)	(203 000)	-	(7 059 387)	(7 011 301)	-	48 086	99 %	100 %
Debt impairment	(2 358 248)	(2 442 000)	(4 800 248)			(4 800 248)	(6 447 353)	-	(1 647 105)	134 %	273 %
Depreciation and asset impairment	(1 823 800)	(1 000 000)	(2 823 800)			(2 823 800)	(4 120 112)	-	(1 296 312)	146 %	226 %
Finance charges	(85 000)	-	(85 000)	-	-	(85 000)	(12 115)	-	72 885	14 %	14 %
Transfers and grants	(2 150 000)	(55 000)	(2 205 000)	118 000	-	(2 087 000)	(1 759 432)	-	327 568	84 %	82 %
Other expenditure	(18 191 123)	(2 122 081)	(20 313 204)	85 000	-	(20 228 204)	(18 273 349)	-	1 954 855	90 %	100 %
Total expenditure	**(58 272 558)**	**(6 394 081)**	**(64 666 639)**	**-**	**-**	**(64 666 639)**	**(65 044 260)**	**-**	**(377 621)**	**101 %**	**112 %**
Surplus/(Deficit)	**2 894 764**	**(2 804 581)**	**90 183**	**-**		**90 183**	**(5 565 198)**		**(5 655 381)**	**(6 171)%**	**(192)%**

Notes to the Annual Financial Statements

Figures in Rand

48. Statement of comparative and actual information (appropriation statement) (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	17 910 252	-	17 910 252	-		17 910 252	15 382 092		(2 528 160)	86 %	86 %
Surplus (Deficit) after capital transfers and contributions	**20 805 016**	**(2 804 581)**	**18 000 435**	**-**		**18 000 435**	**9 816 894**		**(8 183 541)**	**55 %**	**47 %**
Surplus/(Deficit) for the year	**20 805 016**	**(2 804 581)**	**18 000 435**	**-**		**18 000 435**	**9 816 894**		**(8 183 541)**	**55 %**	**47 %**

Notes to the Annual Financial Statements

Figures in Rand

48. Statement of comparative and actual information (appropriation statement) (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources											
Total capital expenditure	(22 132 741)	(4 385 576)	(26 518 317)	-		(26 518 317)	(16 335 950)		10 182 367	62 %	74 %
Sources of capital funds											
Transfers recognised - capital	17 910 251	-	17 910 251	-		17 910 251	15 382 092		(2 528 159)	86 %	86 %
Internally generated funds	4 222 489	4 385 576	8 608 065	-		8 608 065	953 858		(7 654 207)	11 %	23 %
Total sources of capital funds	**22 132 740**	**4 385 576**	**26 518 316**	**-**		**26 518 316**	**16 335 950**		**(10 182 366)**	**62 %**	**74 %**

Notes to the Annual Financial Statements

Figures in Rand

48. Statement of comparative and actual information (appropriation statement) (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	21 069 000	(5 395 000)	15 674 000	-		15 674 000	18 261 543		2 587 543	117 %	87 %
Net cash from (used) investing	(17 706 000)	(8 608 000)	(26 314 000)	-		(26 314 000)	(16 335 950)		9 978 050	62 %	92 %
Net cash from (used) financing	(141 000)	-	(141 000)	-		(141 000)	(74 715)		66 285	53 %	53 %
Net increase/(decrease) in cash and cash equivalents	**3 222 000**	**(14 003 000)**	**(10 781 000)**	**-**		**(10 781 000)**	**1 850 878**		**12 631 878**	**(17)%**	**57 %**
Cash and cash equivalents at the beginning of the year	14 027 500	-	14 027 500	-		14 027 500	14 131 701		104 201	101 %	101 %
Cash and cash equivalents at year end	**17 249 500**	**(14 003 000)**	**3 246 500**	**-**		**3 246 500**	**15 982 579**		**(12 736 079)**	**492 %**	**93 %**